

**ASSESSMENT AND TRAINING REPORT ON
THE ORGANIZATION OF THE REAL ESTATE
INDUSTRY IN YEREVAN, ARMENIA**
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I. INTRODUCTION AND SCOPE OF WORK

INTRODUCTION

The stated overall goal of the USAID Shelter Sector Reform Program for Armenia is to help establish private and free markets capable of achieving a more efficient and equitable allocation of economic resources for housing and urban development, with the associated benefits for consumers in an increased quality, choice and availability of affordable and standard housing for the population of Armenia.

Within the privatization program of the housing stock and the housing production, the obvious need is the creation of private market forces and capabilities to manage, service, allocate and develop housing on an ongoing basis.

The establishment of a professional real estate industry in Armenia, which is capable of leading the country through the privatization program to a normal housing market, is the main focus of the tasks outlined in this report. Since the intermediaries are the real estate professionals (i.e. real estate brokers, appraisers, property managers, developers and builders) it is essential and urgent to assist the country to organize, train, educate and promote these intermediaries so that the trust level of both Government and the population in the free market system is raised and confirmed.

SCOPE OF WORK

The main objective of this first visit was to assess and assist the Armenian Real Estate Association (AREA) in the identification and development of a core of professionals and programs to serve as the vehicle to train and to prepare the new generation of real estate professionals for a democratic, free market system.

The major tasks which were targeted and implemented during this visit are as follows:

1. Developed and delivered a workshop on “The Fundamentals of Real Estate Brokerage” to an audience of over 80 persons active in real estate.
2. Developed and delivered a workshop on “The Fundamentals of Real Estate Finance and Appraisal” to an audience of over 80 persons active in real estate.
3. Interviewed over 15 AREA member and non-member real estate firms at their place of business, to assess their needs and to assist them in finding answers to their queries.
4. Developed and delivered a mini-workshop on “The Basics of Real Estate License Law” to AREA Board of Directors and Housing Sector Government Officials.
5. Reviewed and set up a “Market Transaction Reporting” format and analysis program for use by AREA and Government officials.
6. Reviewed and assessed AREA’s educational and public relations programs.

7. Reviewed, addressed and assisted AREA Board of Directors to finalize the Business Plan and the formulation of the first steps for implementation.

The objective and tasks of this visit are described more fully in the attached Exhibits, Scope of Work and Supplementary Communications.

II. EXECUTIVE SUMMARY

Remarkable progress has been made since the Summer of 1994 when ICMA's advisor, Mr. Steve Anlian, and a group of graduates from the American University of Armenia organized the Armenian Real Estate Association (AREA). The member firms of the so called "Real Estate and Stock Exchange" group, the forerunners of the Association, appear to have reorganized and integrated in AREA. The reported increase in the volume of transactions by AREA members indicates the consumer public's gradual acceptance of the role of the real estate brokerage industry. The continued collaboration of the Government officials with the organizational and business activities of AREA should lead to the Government endorsement of regulating the real estate brokerage market.

The real estate industry today consists of approximately 80 individuals representing an estimated 30 firms. The firms' business age ranges between 3 months to 3 years. The industry seems volatile in the number of active individuals and firms. I was informed of several closings, regroupings and reorganizations within the industry since its formation. AREA reports 17 member firms and 7 pending applications. My conversations with non-member firms indicated that they would join AREA when membership services are provided. See Exhibit D.

The typical firm consists of a principal who has a business license and a seal, and 3 to 5 co-workers, full time and part time. Generally, each firm has a floor dispatcher who functions as an office manager and a messenger. The role of the "agent" or "broker," as they are called intermittently, is to find buyers and sellers, negotiate the price, prepare the minimal paperwork, register the sale and collect the commission. Some firms employ part time students to canvass the "black market" for leads, others take part in the "black market" on behalf of buyers, sellers or themselves. Few firms offered services such as touring guide, car rental, rooming, etc.

Escrow and settlement services are not required, since a typical transaction takes 24 to 72 hours; settlement is all cash; the sale or purchase is generally oral; and the exchange is a single page document.

The commission structure varies frequently. It ranges between 3 - 5% of the sale price and is paid by the buyer or the seller. The commission is shared typically 50 - 50, however, there is a wide variation on this practice. The broker will typically pay, out of pocket, for recordation expenses and "gratuity" to get the job done. Incidence of non-payment of the commission owed appears to be high, thus creating a high degree of mistrust and anxiety amongst the brokers. Since the real estate market is not regulated by agency, contract and license laws, the practice of brokerage is varied and changing.

Financial information is not readily shared amongst the brokers. However, an estimation of the net commission earned may be made. For the average transaction price range of 3,000 - 22,000 dollars, the

average commission of 4% will produce 120 - 880 dollars, out of which 5 - 10 dollars is spent on recordation and "gratuity." It is known widely that transaction prices reported to the government are much lower to minimize the 10% sales tax levied by the government.

The "real estate black market" as it is referred to in Armenia dominates approximately 60 - 70% of all transactions. The "black market" name is inherited from the pre-independence days, where "housing vouchers" were exchanged amongst people. Because there are no licensure laws regulating the real estate market, the "black market" is legal. AREA member firms, however, make a concerted effort to distinguish between themselves and the "black market." The reported number of transactions annually, in the entire market, seems to range between 5,000 - 6,000 dwelling units, mostly multi-family. Thus AREA's share of the annual transactions ranges between 1,250 and 1,500 sales. See Exhibit E.

Additional players in the real estate brokerage market are firms established from within the Housing and Inventory Departments of the Government, who perform the same functions as members of AREA. The reported reason for this unique arrangement are two-fold. First, to encourage competition and second, to allow government employees job opportunities when the departments are reorganized or disbanded.

The reporting and monitoring of the sales activities in the market is very basic and new. The two sources of data utilized come from (1) AREA for sale price levels, and (2) the Inventory office for the number of sales. For all practical purposes, there is no formal market monitoring system in place. It is my opinion that accurate information will be available when the real estate market is regulated through the enactment of the real estate license law and the establishment of settlement and recordation procedures similar to US practice. In the meantime, the expansion and the implementation of the ICMA initiative through AREA will be a practical and useful step. See Exhibit F.

In spite of the deplorable and severe economic condition of Armenia, the attitudes and actions of its people and Government are admirable. I find a great sense of hope, resolve, self-discipline, and dignity in the businessmen and the consumers. There is a genuine sense of gratitude towards the Government and the people of the United States of America. There is an urgent willingness on the part of all of the Armenians to listen, consider and embrace the ideas, concepts and proposals delivered by the technical assistance programs of USAID and ICMA. My experience in Armenia has intensified my trust in our great Country and its people, and it has reaffirmed my commitment to the objectives of USAID in Armenia.

However, I observed a great need for more time, communication and understanding in the "process" of the delivery of our technical service, so that the recipients may absorb what is delivered and may create their own ideas.

The following conclusions and recommendations are made based upon my review, assessment, observation and conversations during the very short "three week" period of my visit.

III. FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

PROFESSIONAL TRAINING OF AREA MEMBERS

Generally, professional training programs are most useful when the trainees have had a reasonable period of work experience. The real estate industry and its active members in Armenia are professionally young and immature. Therefore, the initial professional training program should be linked to the goal of certifying the existing members of AREA, pending the enactment of the Real Estate License Law. The initial program should be designed to include Ethics, License Law, Contract Law, and Valuation Techniques. The period of training and certification should be over 12 months, and each AREA member should be required to be certified.

In an effort to pave the way for this program, Mr. Anlian and myself met with Mr. Michael Kouchakdjian, Director of the American University, and discussed an extension program for the delivery of the training, with a future goal of formalizing a Real Estate Program under the Business Management and Administration Department. The Director is agreeable to work with AREA, ICMA and USAID to create such an extension program.

This effort will certify approximately seventy-five (75) individuals, and prepare at least three (3) trainers to continue the program. The trainers are identified in the Business Plan of AREA.

Comment: “When we were children we talked, walked, ate like children, but when we became adults we began eating solid food.” It is my opinion that the American real estate business management and marketing training programs are premature by at least two years.

THE REAL ESTATE LICENSE LAW

The drafting and enactment of this law is crucial for the success of the real estate market and the association. The areas of technical assistance that may be provided are:

- 1 Assist to draft the law by a Committee consisting of Government and AREA members. Facilitate the translations, discussions, review and enactment as needed. The goal is to expose the professionals to the concept of self-governance.
- 2 Assist in the formation of the Real Estate Commission; the organization, management of the staff and the business of the commission.
- 3 Assist Government Officials to embrace the idea of allowing the public to govern itself.

THE MARKET MONITORING AND MULTIPLE LISTING SERVICE PROGRAMS OF AREA

The establishment of the Multiple Listing Service program should become the priority of AREA, so that the members begin to receive this essential service and justify payment of the higher membership dues required for self-sustaining the association. AREA is in the process of applying for

financial and technical assistance for EERPF and EURASIA Foundation for this purpose. I am in direct communication with Mr. Van Huyck to facilitate the approval of this funding.

The current market monitoring and reporting program needs to be expanded next, to include other major cities and towns of Yerevan. The importance of this program will become more evident to the Government as the real estate privatization process nears completion and land use and taxation issues come into focus. It is recommended that the current AREA program be considered as a pilot program to be rolled over to the Department of Urban Policy in an expanded form and to be used for public policy as well as for industry.

THE PUBLIC RELATIONS PROGRAM OF AREA

Any effort to plan and implement a basic public relations program by AREA will produce significant results in building trust and confidence amongst the players of the real estate market, namely, the real estate professionals, the consumers and the Government. The focus of such a program should be in informing and educating the public at large on free market real estate operations.

Specifically, for obvious reasons, the media of Radio and Television should be utilized to inform the public on the association goals and activities including the code of ethics, the license law and other market transactions or contractual matters between consumers and the real estate professionals. In the absence of adequate printing and publication industries; with the minimal telecommunications network, and a weak postal service, radio and television broadcasting represents the cheapest and fastest way of informing the public on the real estate market place. Simple, short visual and narrative messages may be designed to deliver the desired information to the public. Obviously, AREA should be ready with a staff to execute such a public relations effort.

In conclusion, I believe the efforts of USAID and ICMA to extend to the Armenian people the much needed technical, financial and moral support is excellent and most appreciated. The direction of the programs in place, to assist the Armenian real estate industry in playing its vital role in the housing privatization process is on target. Much more assistance will be needed in the areas of effective management and maintenance of the existing housing stock, and in the production of new housing. The enormous sunk capital in incomplete housing construction is heartbreaking. I strongly recommend that USAID extend its assistance in developing strategies for the completion of these housing structures. The benefits are multiple in terms of employment, consumption, production and an active real estate industry. A task force, if not in place, is the first step towards this goal.

IV. TRAINING WORKSHOPS I, II, II

WORKSHOP I: THE FUNDAMENTALS OF REAL ESTATE BROKERAGE

The workshop was held on April 15, 1995 at the American University. It commenced at 10:00 am and ended at 4:30 pm. The Workshop was attended by over eighty (80) persons who represented almost all of the AREA member firms, Government officials for the Inventory Bureau and the Housing Division, and some graduate students.

The format of the workshop consisted of presentation of topics followed by participatory question and answer sessions. The attached Exhibit A represents the workshop book handed to the attendees translated into Armenian. The technique of delivery consisted of the simultaneous audio-visual overhead projection of the topics delivered. The attendees were encouraged to write down ideas and concepts as they heard and saw them.

Utmost care as employed to deliver simple, clear and exemplary concepts and ideas with the express purpose of posing salient questions, exposing opportunities and encouraging the attendees to derive their own conclusions at their own pace. (It has been quite scary for me to see myself being asked to think like a communist.)

The most challenging and thought provoking discussions centered around:

- 1 The role of the broker.
- 2 The vast opportunities available in the real estate business.
- 3 The law of agency.
- 4 The issues dealing with contract law. *(None of these have any experiential context to them.)*

The least amount of interest was demonstrated towards discussions dealing with organizing, opening and managing the real estate firm. The main reason for this lack of urgent interest in these discussions is the fact that each firm and broker is preoccupied by its basic daily survival needs. The main reason for the high interest in legal and contractual matters affecting their business is the fact that each firm and broker is focused on competing with a major black market, justifying its right to earn a commission as an intermediary, and getting paid.

WORKSHOP II: THE FUNDAMENTALS OF REAL ESTATE FINANCE AND APPRAISAL

The workshop was held on April 22, 1995 at the American University. It commenced at 12:30 pm and ended at 4:30 pm. The workshop was attended by over eighty (80) persons who represented almost all of the AREA member firms, Government officials from the Inventory Bureau and the Housing Division.

The same format and techniques of delivery were employed. The participants demonstrated great enthusiasm and keen interest in the topics discussed. The attached Exhibit B represents the workshop book delivered to the attendees.

The most challenging and thought provoking discussions centered around the three methods to estimating value. Some attendees were disappointed that mathematical formulas were not utilized in estimating values, reminding me the varied and highly educated background of the attendees, and their notion of market value.

The discussions on financing did not create much enthusiasm mainly due to the notion of borrowing money over a long amortization period; and due to the extremely high interest rates charged by banks. However, many understood the role and need for financing sources in sustaining a healthy housing market, where consumers are able to buy and sell real estate on an affordable and regular basis. They did understand that as values rise, buying and selling on all cash basis may become harder thus suffocating the tender housing market.

It is worthwhile to read the attached Exhibit E, News Paper Article on the Seminar. Besides poor translation, there is a lack of communication on this issue.

The seminar was followed by a closing ceremony. I presented the Board of Directors of AREA; promoted the goals of AREA; presented the American Flag to the President ; presented REALTOR memorabilia such as membership pins, T-shirts, etc. This was followed by a catered reception. Marketing of AREA had already begun.

WORKSHOP III: THE BASICS OF REAL ESTATE LICENSE LAW

This mini-workshop was held on April 27, 1995 at the offices of the Director of the Department of Urban Policy, Mr. Andranik Andreasian. It commenced at 10:00 am and ended at 12:30 pm. The workshop was attended by the representative AREA Board of Directors, The Department of Inventory, The Department of Housing and the Department of Urban Policy. See the attached Exhibit C.

The purpose of this workshop was to present and discuss the urgent need, the basic concept and the implementation process of the Real Estate License Law. The attendees were given a visual chart outlining the nature of the license law so that a consensus and an agreement may be reached at the workshop, for the drafting and enactment of the Real Estate License Law.

The Real Estate License Law is expected to:

- 5 Eliminate the pervasive black market.
- 6 Encourage the growth of a professional real estate brokerage industry.
- 7 Help stabilize volatile price levels.
- 8 Build trust in the private and free housing market.
- 9 Build trust in the Real Estate Association.
- 10 Establish trust between the Government and the private sector.
- 11 Introduce self-governance within the Real Estate Industry.

The issue of “trust” is big in Armenia, and specially amongst the consumers, the brokers, and those government officials who manage the housing privatization process. There are “brokerage firms” within the departments of Housing and Inventory, set up by government officials to compete with the public!

The Real Estate License Law, as proposed, will be self-governing and self-sustaining, an idea which is alien to both the private and the public sector. The Government fears losing control and the public fears responsibility and leadership. We were able to convince the attendees that they should support the proposals, in spite of the obvious difficulties, for no other reason than experimenting one democratic way of claiming accountability. Mr. Andreasian stated that a draft may be prepared within a month and enactment within six months.

V. ASSESSMENT OF THE STRUCTURE & OPERATIONS OF THE REAL ESTATE FIRMS

The purpose for visiting the real estate firms at their place of business was to see the physical environment of each firm and hear the needs first hand. This task was most difficult and yet most rewarding to me.

The typical size of a firm consisted of 4 - 5 persons, occupying one or two average size offices with bare furnishings, minimal communication lines or office equipment, generally dark and cold and often depressing, but always organized.

The typical firm is organized by a broker-owner with 3 - 5 assistants, agents or employees as they are called. There is usually a “floor dispatcher” who performs as the messenger/the processor/the office manager, especially when telephone communications fails. The broker-owner carries a “seal” in his pocket issued by the Government to do business with.

These firms, whose business life ranges between 3 months to 3 years, are the pioneers of the free real estate brokerage industry in Armenia. The individuals are all highly educated and sturdy, both physically and in spirit. They do not complain about their hardships. They have thought out the market place well, and they know all the basics of canvassing, targeting, prospecting, qualifying and selling. Their knowledge is gained through insight and a strong need to survive. If we can picture the early American settlers we can appreciate these firms well.

The needs of all the firms is similar:

- 1 Elimination of the black market.
- 2 Enactment of license and contract laws.
- 3 Office equipment, supplies and electricity.
- 4 Training in the basics of the business and the Code of Ethics for a civilized conduct.
- 5 Professional encouragement.

The most prevalent questions raised are:

- 6 How to convince consumers to enter into written listing agreements.
- 7 How to convince buyers and sellers to enter into written agreements.
- 8 How to assure the payment of the commission.
- 9 How to beat the black market.

I left all of these firms with lots of encouragement and support to become active members of AREA. Their attendance of both workshops in full force, and their repeated requests for more time with them leaves me to believe that they all appreciate and are truly grateful to the devoted people of the United State, USAID and all of the TDY's. The attached Exhibit D outlines the schedule of the visits and some basic information on each firm where available.

VI. ASSESSMENT OF THE MARKET MONITORING PROGRAMS OF AREA

The Market Monitoring Program of AREA is in a very embryonic stage. The ICMA and Steve Anlian's efforts have produced essential statistics very effectively, especially in the absence of ongoing information systems in the market place. I commend highly Mr. Anlian's insightful efforts to quickly create an embryo for growth.

I assisted Miss A. Hovhanissian, a statistics major, to develop a very simple format to report on market transactions and prices, by districts or zones for the City of Yerevan. The report includes narrative and visual components to assist firms and public officials to utilize the information for business and policy issues. The information may not always be accurate.

A great deal of work is needed to develop a comprehensive reporting system. AREA anticipates the implementation of such a system commencing with a "multiple listing" program in addition to the "transactions" report described earlier. Attached is Exhibit E, the draft report. See "Recommendations."

VII. ASSESSMENT OF THE PROFESSIONAL EDUCATION PROGRAM OF AREA

There is no formal Professional Education Program in place, but it is expected that there will be one (see Section III A). While the need for an ongoing education and training program is indisputable, the timing and the extent of such programs must be considered carefully. The typical firm and its members are focused on one goal today. That goal is to survive daily as individuals and as a company. As it is discussed fully in “Recommendations,” the goals of AREA should focus on:

- 1 Teaching the Code of Ethics, to build a moral foundation for the industry.
- 2 Teaching the basic License Law, to produce trained professionals.
- 3 Teaching the basic Contract Law, to assist in the daily business of “selling and buying.”

None of these three areas require a legal background. All of these areas are essential to create a trusting, uniform and predictable market place behavior by all participants.

VIII. ASSESSMENT OF THE PUBLIC RELATIONS PROGRAM OF AREA

There is no formal Public Relations Program of AREA, and it is important that there be one as soon as possible. In the absence of written and printed publications that inform the AREA members, the public and the government about the real estate market; in the absence of a reliable telecommunications media, the short term focus should be the development of a public relations program via the radio and the television media. The specific goals of the program should be:

- 1 The promotion of AREA and aspects of the Business Plan.
- 2 The Code of Ethics, and its benefits.
- 3 The License Law, and its importance.

Therefore, informing the consumer how the real estate market functions should gradually weaken the black market, and encourage buyers and sellers to seek professional help. See “Recommendations.”

IX. THE AREA BUSINESS PLAN IMPLEMENTATION, APPLICATION TO EERPF AND EURASIA FOUNDATION FOR FUNDING

The work of Mr. N. Flynn, the President of EERPF in Yerevan, has already produced results that will be remembered for a long time. The AREA Business Plan was reviewed and discussed by myself and a small group of AREA Board members. having been briefed by Mr. Van Huyck, EVP of EERPF, prior to my trip to Armenia, I was successful in focusing on those business goals that will produce the most results with the least amount of initial funding. The attached Exhibit H is a copy of this plan.

Essentially, the Business Plan calls for the Mission of the AREA to focus on creating a professional real estate association who is dedicated to a civilized, trusting real estate market place.

The initial funding requested from EERPF/EURASIA Foundation should produce the following results:

- 1 Establish a simple Multiple Listing Service Program .
- 2 Establish a simple market monitoring program.
- 3 Provide standardized transaction forms for use by AREA members.
- 4 Certify all of the members of AREA by training a core of trainees in the areas of:
 - 1 Code of Ethics.
 - 2 License Law.
 - 3 Contract Law.
 - 4 Evaluation.
 - 5 Business Management.

The certification shall precede the enactment and implementation of the National Real Estate License Law and it shall become a voluntary demonstration of commitment to the public and the government. See “Recommendations.”

TABLE OF EXHIBITS

EXHIBIT A: THE FUNDAMENTALS OF REAL ESTATE BROKERAGE AND LIST OF ATTENDEES

EXHIBIT B: THE FUNDAMENTALS OF REAL ESTATE FINANCE AND APPRAISAL AND LIST OF ATTENDEES

EXHIBIT C: THE BASICS OF THE REAL ESTATE LICENSE LAW AND LIST OF ATTENDEES

EXHIBIT D: THE SCHEDULE OF MEETINGS AND THE LIST OF FIRMS

EXHIBIT E: THE MARKET MONITORING REPORT

EXHIBIT F: THE AREA BUSINESS PLAN AND APPLICATIONS

EXHIBIT G: THE NEWS ARTICLE

EXHIBIT H: SCOPE OF WORK

**EXHIBIT A - THE FUNDAMENTALS OF REAL ESTATE BROKERAGE AND
LIST OF ATTENDEES**

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